Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 January 2015

Portfolio Objective

The ATI Australian Equity Portfolio seeks to achieve total returns (includes income and capital appreciation, before the deduction of fees and taxes) that exceed those on the S&P/ASX300 Accumulation Index by 3% p.a. over rolling five-year periods.

Performance Update

(*Returns to 31 January 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	3.3	1.9	14.7	15.2	8.5	7.9
Benchmark Index	3.2	1.9	12.0	14.0	8.4	5.8
Relative Outperformance	**0.1**	**0.0**	**2.7**	**1.2**	**0.1**	**2.1**

*Past performance is not a guarantee of future results and may not be indicative of them. The gross returns are calculated using the Portfolio's net asset value of a model mandate within the OneVue SMA product. Performance assumes reinvestment of all income. Inception date is 23 December 2005.

Portfolio Details as at 31 January 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	9.1	10.2
Telstra	8.4	5.6
ANZ Bank	8.2	6.4
Westpac Bank	7.9	7.6
National Australia Bank	7.6	6.1
BHP Billiton	4.8	6.6
Rio Tinto	3.8	1.8
Wesfarmers	3.6	3.5
CSL	3.3	2.9
Insurance Aust. Group	2.9	1.1

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	48.5	47.0
Materials	10.6	14.7
Telecommunications	10.0	6.1
Healthcare	8.8	5.9
Consumer Staples	5.7	7.4
Energy	2.8	4.6
Consumer Discretionary	2.8	4.2
Utilities	2.4	2.0
Information Technology	2.4	0.9
Industrials	1.6	7.3

Selected Portfolio Statistics as at 31 January 2015

Inception Date	23-Dec-05
Number of Stocks	34
ATI Funds Under Management	~ $400m

MER (est.)	~ 0.90% p.a.
Tracking Error (forward estimate)	~ 3% p.a.

Portfolio Performance

The ATI Equity Portfolio rose 3.3% in January compared with a rise of 3.2% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, 1 year, 3 year, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Telecommunications (+8.3%), Consumer Discretionary (+6.2%), and Utilities (+6.1%) whilst the worst performers were Energy (-6.5%), Information Technology (-1.3%), and Materials (+0.8%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight Telco's (10.0% v benchmark of 6.1%) and Health Care stocks (8.8% v benchmark of 5.9%) and underweight Energy (2.8% v benchmark of 4.6%) stocks, whilst it was most negatively impacted by the fact that we had holdings in Materials (10.6% v benchmark of 14.7%) stocks which underperformed the market.

Attribution of Stocks

The portfolio performance during January was assisted by overweight positions in Resmed (RMD), Telstra (TLS), and M2 Group (MTU); and by not holding Amcor (AMC), Origin (ORG), and QBE Insurance (QBE). The three stocks in the portfolio that contributed most to its relative performance during January were:

Resmed (RMD) (+16.4%) continued to outperform the market and has now increased 40.9% compared with the market return of 6.0% since the start of this financial year. During the month, RMD announced its 2Q15 result. This was the first full quarter to include full sales from the new AirSense 10 machine and the result was strong with NPAT at US$91.2m being ~5% above consensus. Revenue grew by 12% in the US market and by 8% in ROW, driven by 20% constant currency growth in global machine sales. Global mask sales grew by 6% on pcp in constant currency, as average selling prices (ASPs) declines stabilised. However, RMD did cut gross profit margin guidance by 100bp to 60-62% for 2H15. Despite strong recent performance we continue to hold RMD as an overweight portfolio position on the thematic that: i) top line sales growth will continue to be generated following the successful launch of the Airsense 10; ii) short covering will continue to occur supported by the ongoing buyback (we note that there is still 19% of the register short - representing 22 days volume); iii) the market will begin to focus on the longer term opportunities in new indications such as COPD and heart failure (with the SERVE HF trial results due in 2016); and iv) RMD is proving that it has structural leadership, in an under-penetrated global market, with high barriers to entry.

Telstra (TLS) (+8.9%) outperformed over the month as the US stated they would not be raising interest rates at least until mid 2015 and this ensured that the ongoing yield support would continue to assist the stock (current yield of ~5.5%). In addition, during the month Telstra announced that they had made investments in two companies: i) Elemental Technologies, a video processing and multi-screen distribution company, and ii) IdeaObject, an Indian start-up that builds software. Despite the strong recent share price performance, TLS remains an overweight portfolio position that currently provides the comfort of relative earnings clarity and above market dividend yield.

M2 Group (MTU) (+10.7%) outperformed during January as the telecommunication companies outperformed the broader market, assisted by the ongoing support for companies with double digit top line sale growth and yield support. Despite minimal news flow the market has been focusing on MTU's strong organic growth potential that may well be assisted by cost efficiencies and provide an upside surprise at the 1H15 result to be released in February. MTU remains an overweight portfolio position that currently provides the comfort of relative earnings clarity and a sustainable dividend stream over the next few years as the business continues to bed down the recent acquisitions.

Positions that detracted most from the portfolio's performance during the month were from being overweight Sandfire Resources (SFR), RIO Tinto (RIO), and Fortescue Metals Group (FMG); and from not holding Newcrest Mining (NCM), Transurban (TCL), and Macquarie Group (MQG). Stocks in the portfolio that detracted most from relative performance during the month included:

Sandfire Resources (SFR) (-6.2%) underperformed during January as copper became the latest commodity price casualty, falling ~13% throughout the month to ~US$2.50/lb from closer to US$2.90/lb at the end of 2014. The fundamental outlook for the copper price remains robust with a supply deficit expected to re-emerge over the medium term, or possibly even sooner if current political and fiscal developments in Zambia escalate and reduce the expected short term supply growth from that country. However in the face of recent precipitous falls in most commodity prices, a concerted effort by speculators to push copper prices lower met with little resistance during January. During the month the company released an updated Resource and Reserve statement, extending the mine life of DeGrussa to 2021, in line with our modelling. Production for the December quarter (15kt) and half (31kt) was in line with previous guidance. SFR remains an attractive investment and portfolio holding, with earnings and cash flows relatively insulated from commodity price volatility due to the high grade (and subsequently high margin) nature of the orebody.

RIO Tinto (RIO) (-0.8%) underperformed the market during January, however marginally outperformed the broader resources sector, with the S&P/ASX 300 Resources index falling by -1.2% over the month. The iron ore price attempted a short-lived recovery above US$70/t early in the month, before falling away to US$62/t at the end of January, taking it back to levels last traded in 2009. Meanwhile, RIO continues to expand production volumes to win market share and displace higher cost producers, guiding to 2015 production of ~330mt, an increase of ~12% over 2014 production of 295mt. This strategy, consistent with that of BHP and Vale, appears destined to result in the iron ore price trading deep into the cost

curve for an extended period before higher cost producers are finally induced to exit the industry. With regard to portfolio positioning, we remain underweight Materials, however remain comfortable with our overweight position in Rio Tinto (and underweight in BHP Billiton) on relative valuation, and given RIO is a material net beneficiary of lower oil prices, which we expect to continue to lead to ongoing downgrades to BHP's earnings and cash flows.

Fortescue Metals Group (FMG) (-13.9%) was also impacted during the month by lower iron ore prices despite delivering another excellent quarterly production report. Quarterly shipments remained steady at an annualised rate of 164mtpa, above nominal nameplate system capacity of 155mtpa. Costs benefited from the falling currency and oil price, dropping on a C1 basis to US$28.48/wmt, and expected to fall further to US$25-26/t over the June 2015 half. Price received for the quarter was US$63/dmt. Meanwhile budgeted capital expenditure for FY2015 has been cut by ~US$650m or 50%. FMG remains a portfolio holding on relative valuation, albeit with a very modest portfolio weighting.

Portfolio Construction

The main portfolio weighting changes during January were quite minimal and included: top-ups for our portfolio holdings in AMP (AMP), ANZ Banking Group (ANZ), Lend Lease (LLC), SFR, Seven West Media (SWM) and Telstra (TLS); and slight portfolio reductions for our holdings in BHP Billiton (BHP), Brambles (BXB) and Westfield Group (WFD). Cash at the end of January was 4.1% and is just below the 5% maximum threshold, similar to the 3.9% in December, reflecting our view that we feel a pull back in equity markets to provide some opportunities as certain stocks have been sharply sold down over the latter part of calendar 2014.

The ATI portfolio, with regard to its market capitalisation exposures, is only slightly differentiated to the benchmark index with ~87% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~83%), ~10% in the next 100 (benchmark ~14%), and ~3% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~63% of the portfolio (benchmark ~53%), the dividend yield is 4.6% (benchmark 4.5%) and the portfolio's historic or trailing PE is 14.7x (benchmark of 15.9x).

Whilst the portfolio's market cap bias remains tilted to the larger stocks, its underlying active sector positioning is not the same as that of the benchmark index. The main points of differentiation are that the portfolio remains underweight the industrial and material sectors and overweight the financial, healthcare and telecommunication sectors. We remain comfortable holding positions in some specific resource stocks, particularly BHP, FMG & RIO, and copper exposure, Sandfire Resources (SFR), whose expected return is sufficiently attractive to justify some additional portfolio risk at this stage.

We also continue to remain overweight in stocks we view as having industry structure advantages and/or the expected benefit of USD currency exposure from offshore earnings such as BXB, Computershare (CPU), CSL, and RMD in combination with other opportunities that we feel have fundamental valuation support, such as CarSales.Com (CRZ), MTU, Suncorp Group (SUN), Virtus Health (VRT) and Wesfarmers (WES).

Portfolio Risk

The current forecast tracking error of ~2.3% is similar to last month (~2.2%). We are continuing to be presented with a number of stock opportunities in the financial, materials, industrial and consumer staples sectors as a result of some recent market underperformance. At this stage we still feel that any further additional risk in the mining contractor stocks is unlikely to be justified in an environment with ongoing profit warnings and earnings downgrades, minimal forward earnings clarity and continued reductions in the expected mining capex spend of the larger mining companies over the next few years.

At present, the main sources of portfolio risk are from overweight positions in SFR, RMD, MTU, RIO, LLC, IAG, and TLS.

General Market Commentary

The Australian equity market kicked off calendar 2015 on a strong note with the S&P/ASX300 Accumulation Index rising +3.2% in January as falling interest rate expectations fuelled another leg in the ongoing 'hunt for yield' trade. In particular, the bond yield sensitive property trust, telco and utility stocks outperformed as the 10-year Australian bond yield fell to an all-time low of 2.56% by month end. In addition, a weaker Aussie dollar boosted the appeal of globally exposed companies as the expected positive impact of currency translation benefits attracted investors.

In some company specific news highlights, January saw: Woodside Petroleum (WPL) and Oilsearch (OSH) provide calendar year 2015 production guidance; Arrium (ARI) announced in its quarterly production report that it will mothball its high cost Southern Iron mine; RMD posted a strong quarterly result with revenue from US flow generators rising 25% y/y; BHP reported Pilbara iron ore production of 248Mtpa at its December quarterly result; and RIO reported 4Q14 iron ore shipments of 311Mtpa

The RBA do not meet in January so the official cash rate remained on hold from last year at 2.5% although expectations of rate cuts in Australia heightened following a weaker-than-expected 4Q14 CPI print. As a result, the Aussie dollar fell 5% against the USD to a 5-year low and finished the month down at US$0.7762, compared to the previous month's close of US$0.8175. The stranger currency related event during January was that the Swiss National Bank unexpectedly abandoned its exchange rate cap of 1.20 Swiss Francs per Euro, in place since September 2011, arguing it was no longer justified. The Swiss Franc immediately rallied more

than 30% against the Euro and the US dollar, roiling foreign exchange markets and sparking a plunge in the Swiss stock market. The Euro also fell against most major currencies, including the Aussie dollar, on the ECB QE announcement and signs of deflation.

Regarding domestic economic releases in January: the NAB survey of business conditions fell (again) in December to +4.1 (previous +5.3); the Westpac-MI consumer confidence index rose 2.4% to 93.2, after a 5.7% slump in December; employment was far stronger than expected (again) in December, jumping 37k (consensus: +5k), after spiking 45k in November – the best two months since 2006; the unemployment rate also dropped back unexpectedly to 6.1% (consensus 6.3%), after a downwardly revised 6.2% in November (was 6.3%), and a 12-year high of 6.3% in October; retail sales rose 0.1% m/m (consensus +0.2%) in November; food retailing and restaurants categories were strong, rising 0.6% and 0.8% respectively, while clothing declined 0.7%; building approvals rose 7.5% m/m (consensus +3.0%) in November, marking a monthly record high for the series at 18,245, driven by a 17.2% increase in the multi-family segment; the volume of new housing finance commitments slipped 0.7% m/m in November (consensus +1.7%); 4Q CPI came in at 0.2% q/q being the lowest rate in two years (consensus 0.3%) and as the market had expected due to the rapid fall in the fall price, the automotive fuel component was very weak and effectively trimmed 0.25%-points off the headline inflation figure; and housing credit growth for December was +7.12% y/y, the strongest growth since December 2010.

The rout in commodity prices from late last calendar year continued in January and was further exacerbated by a surging US dollar. Oil (Brent crude) plunged for a seventh consecutive month to be down 16% during the month to its lowest level since March 2009, though it rallied 7% on the final day of the month following the sharpest weekly drop in U.S. oil rig count in nearly 30 years. Copper plunged 13% to its lowest level since July 2009, though other base metals were largely unchanged. Iron ore plunged 13% to its lowest level since May 2009. Soft commodities were also not immune to the rout, with wheat falling 15%. Gold, not surprisingly, was a notable exception to the downward trend, rising 8% during the month, aided by the announcement of further quantitative easing from the ECB, the impact of negative revisions for global growth expectations from the World Bank (down from 3.4% to 3.0%) and the Swiss National Bank's decision to remove the currency pegging for the franc.

Outlook

The market PE ratio has risen above 15 times, which seems appropriate given increasing evidence that interest rates will remain lower for longer. Given that we have seen that demand for yield stocks has been supported by the ongoing quantitative easing actions being undertaken by global central banks, this should continue for quite some time yet as the RBA jumps on the interest rate easing bandwagon. Our view is that the Australian market's superior relative yield advantage should continue to be the recipient of investor support and this in turn is expected to limit the downside for our equity market in the year ahead.

The greatest near term challenge for our equity market that we see remains the anaemic level of consensus forecast earnings growth. In the last quarter of calendar year 2014 negative consensus forecast EPS momentum accelerated, driven by energy-related downgrades as well as a general worsening in sentiment towards the growth outlook for the domestic economy. Our concern is that, as we head into the February results season, there could be more broad based declines in industrial stock forecasts and that FY15 consensus EPS growth (now at sub 3%) could even turn negative. Under this scenario, not only would further PE multiple expansion be unlikely but it also could provide the catalyst for a de-rating in market multiples.

This essentially underpins our ongoing bias towards greater earnings certainty, sustainable yield and growth outside domestic sources as we feel that EPS growth will be hard to achieve for many stocks in 2015. We remain of the view that the major banks still remain attractive relative to many other sectors and are some of the only large cap stocks likely to see upgrades for FY15 - driven by lower funding costs, benign asset quality and reasonable asset growth.

Whilst we are aware that higher yielding stocks remain susceptible to further increases in global interest rates, the current heightened levels of global geopolitical risk mean that we will remain overweight the financials sector in the near term as it continues to offer us a higher level of earnings certainty than many industrial and resource names as we head into the next reporting season in February. Our decision to remain underweight the materials sector still seems appropriate at this stage as consensus aggregate EPS expectations for FY15 have continued to trend lower with commodity prices and composite sector earnings growth expectations for FY15 still remain negative. Earnings revision momentum still looked quite poor at the headline level and consensus earnings for the resource sector are now 30% lower than they were a year ago following a further 10% cut during January.

We also remain positioned with a number of stocks having USD earnings exposure that are likely to benefit from any weakness in the Aussie dollar and we also expect a stronger US economic outlook will continue to put pressure on the gold price and this is why the portfolio still has no direct exposure to gold. Other specific active sector positioning includes being underweight the industrials (including holding no mining services stocks), consumer staples and energy stocks. Outside of the financials, we also remain overweight the healthcare, telecommunications and utilities sectors.

PORTFOLIO RISK SUMMARY

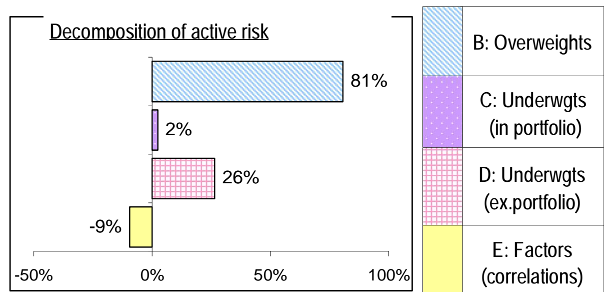
Goldman Sachs

Portfolio Name:	MyPort
Benchmark:	ASX300
Date of Data:	31-Jan-15
Sector Type:	GICS1

		Active Exposures:		%
Historic portfolio alpha	6.1%	Total:	72.3%	100.0%
Historic portfolio beta	0.96	Across sectors:	28.9%	40.0%
Raw return	11.3%	Within sectors:	43.4%	60.0%

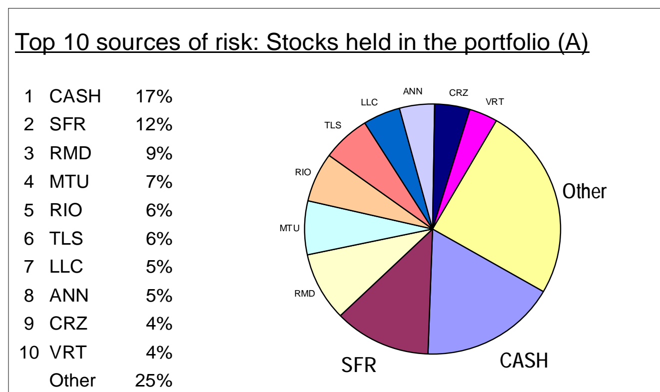
Forecast Tracking Error: **2.34 %** (active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	83%	2.1	4.5
B	Overweight positions	81%	2.1	4.4
C	Underweight positions	2%	0.4	0.1
D	Stocks not held in portfolio	26%	1.2	1.4
E	Factors (correlations between stocks)	-9%		(0.5)
F	Total (A + D + E)	100%	2.3	5.5



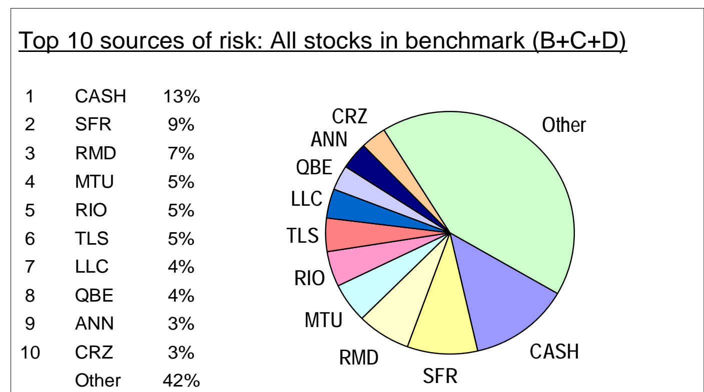
Top 10 sources of risk: Stocks held in the portfolio (A)

1	CASH	17%
2	SFR	12%
3	RMD	9%
4	MTU	7%
5	RIO	6%
6	TLS	6%
7	LLC	5%
8	ANN	5%
9	CRZ	4%
10	VRT	4%
	Other	25%



Top 10 sources of risk: All stocks in benchmark (B+C+D)

1	CASH	13%
2	SFR	9%
3	RMD	7%
4	MTU	5%
5	RIO	5%
6	TLS	5%
7	LLC	4%
8	QBE	4%
9	ANN	3%
10	CRZ	3%
	Other	42%



Active Weights